



**QUEEN'S
UNIVERSITY
BELFAST**

Accrual accounting, politicians and the UK—with the benefit of hindsight

Hyndman, N. (2016). Accrual accounting, politicians and the UK—with the benefit of hindsight. *Public Money and Management*, 36(7), 477-479. <https://doi.org/10.1080/09540962.2016.1237111>

Published in:
Public Money and Management

Document Version:
Peer reviewed version

Queen's University Belfast - Research Portal:
[Link to publication record in Queen's University Belfast Research Portal](#)

Publisher rights

© 2016 CIPEA. This is an Accepted Manuscript of an article published by Taylor & Francis in Public Money & Management on 27 Sep 2016, available online: <http://www.tandfonline.com/doi/full/10.1080/09540962.2016.1237111>

General rights

Copyright for the publications made accessible via the Queen's University Belfast Research Portal is retained by the author(s) and / or other copyright owners and it is a condition of accessing these publications that users recognise and abide by the legal requirements associated with these rights.

Take down policy

The Research Portal is Queen's institutional repository that provides access to Queen's research output. Every effort has been made to ensure that content in the Research Portal does not infringe any person's rights, or applicable UK laws. If you discover content in the Research Portal that you believe breaches copyright or violates any law, please contact openaccess@qub.ac.uk.

Public Money & Management Accepted Article Pre-publication

Debate: Accrual accounting, politicians and the UK – with the benefit of hindsight

Noel Hyndman is Professor of Management Accounting in Queen's Management School, Queen's University, Belfast, UK.

Debate: Accrual accounting, politicians and the UK – with the benefit of hindsight

Noel Hyndman is Professor of Management Accounting in Queen's Management School, Queen's University, Belfast, UK.

For over three decades, many changes, often collectively referred to as New Public Management (NPM), have been introduced in the public sectors of numerous countries. These changes are often related to the argument that operations should be more modern and business-like, in order to facilitate better decision making in, and more appropriate accountability by, public-sector bodies. Words like effectiveness, efficiency, performance and transparency often come to the fore when such changes are proposed.

Aspects of NPM often include moves from cash-based to accrual-based accounting systems in the belief that these will provide more appropriate information for decision makers and those to whom accountability is owed, with it frequently being suggested that accrual accounting is necessary to underpin wider NPM changes. Indeed, in the UK central government this has been implemented under the title of resource accounting and budgeting (RAB). Resource accounting extends beyond the cash-based accounting used previously by applying accrual principles to public-sector accounting (implemented in full 2001/02). In addition, on the management accounting side, a subsequent move to resource (i.e. accrual) budgeting in order to make the management accounts align with the external accounts was made (implemented in full 2003/04). In addition, in 2007 it was announced (commenced 2009) that the financial accounting of government departments was to be based on International Financial Reporting Standards (IFRS) (as adapted for the public sector by H.M. Treasury), rather than International Public Sector Accounting Standards. Moreover, the position of accrual accounting was further embedded by the production of consolidated Whole of Government Accounts (WGA), with the first set of WGA being published in 2011. So, in the UK central government, a fairly detailed, sophisticated architecture of accrual accounting has been developed, often going beyond what many commercial organisations are expected to follow. But does it help, and, in particular, how does it relate to the job politicians do?

The UK experience with accrual accounting

A good accounting system is regarded as both a prerequisite for the discharge of accountability (being related to the requirement for an entity to be answerable to outsiders for its conduct and responsibilities), and as a support for those charged with decision making within the entity. In this latter context, traditional views of accounting typically portray it as a means of providing rational decision makers with appropriate information to make informed decisions. Such a notion of accounting is based on a view of the organisation, as one with well-defined, clearly-ordered goals and objectives that are uncompromisingly pursued by decision makers. Notwithstanding the validity or otherwise of the above argument, accrual accounting is often presented as superior to cash accounting, with it being suggested, among other things, that: cash-based systems have inbuilt biases against rational capital investment; accrual accounting enables better-informed decisions on the balance between current and capital expenditure; and accrual accounting provides a more accurate basis for determining cost. Such views suggest that accrual accounting can provide *accurate, true, objective* information to support *rational, objective-focused* decision making.

But who are the decision makers? Key decision makers in a public-sector setting are public-sector managers and politicians. Customarily, politicians are viewed as being responsible for the development of mission and strategic plans, whereas managers and administrators are

responsible for the neutral implementation of such plans. However, there is evidence that in some modern NPM settings these roles are dynamic and can often overlap (Aberbach and Rockman, 2006; Liguori et al., 2012). While some (particularly professional accountants and their acolytes) may focus on the technical aspects of the adoption of accrual accounting, it is clear that the accrual accounting changes in the UK, and elsewhere, have (or, at least, are meant to have) a much wider constitutional influence relating to political control and political decision making (Newberry, 2015). Strategies have been formulated, decisions have been made, performance has been evaluated and political oversight has been (or at least should have been) exercised, all utilising this new crispy, crunchy modern accounting information.

Does this pose a problem? Possibly. First of all, managers and politicians (and even accountants) working in the UK public sector have viewed the changes as unnecessarily complex, very difficult to understand and, through overly embracing commercial models in their development, not focussing on key public-sector issues (Heald and Georgiou, 1995; Connolly and Hyndman, 2006, 2011; Ezzamel et al., 2007). Moreover, the benefits of applying accrual accounting in a public-sector setting have at times been oversold and deliberately undercosted (Connolly and Hyndman, 2006; Lapsley et al., 2009). In addition, and particularly focusing on the role of politicians, accrual accounting uses very sophisticated 'expert talk' which has the potential to undermine democratic accountability. This happens when politicians, who cannot, or do not, engage with such language, are disadvantaged (or even excluded) from the political decision-making process (Ezzamel et al., 2005). Indeed, the adoption of IFRS and WGA with respect to central government accounting, arguably encouraged on the basis of the (undue?) influence of consultancy-service providers and the needs of financial markets, could be viewed as added complexity that makes appropriate usage (or usage at all) by politicians (and managers) much less likely. These themes are not unique to the UK setting, but have echoes elsewhere, where accrual accounting systems have been proposed and/or implemented (for example: Brusca Alijarde, 1997; Guthrie, 1998; Ter Bogt, 2004; Newberry and Pont-Newby, 2009).

Reflections on the UK experience

So what lessons can we learn from the UK experience? Undoubtedly, cash-based systems have the virtues of simplicity, understandability and objectivity. While they also have weaknesses, in particular in relation to providing meaningful cost information in situations where there is significant capital consumption required, replacing them with overly complicated accounting rules that are difficult to understand (and of questionable benefit to many, or any, in application) will be of little help. While accrual accounting in the public sector may be promoted as 'progressive' and 'fashionable' in some quarters, little will be gained, and possibly much lost, by developing systems that few understand, use and engage with.

Therefore, if accrual accounting systems are adopted, the reporting schedules used (and the applicable financial reporting standards followed), should be kept as simple as possible. The needs (and abilities) of politicians (and other day-to-day users of information) ought to be central in system-design decisions; in the language of O'Neill (2006), the information has to be both accessible to and assessable by key stakeholders if it is to be useful. The balance between simplicity of system and usefulness of information must be weighed carefully, with information understandability given the highest priority. The fact must be grasped that disaggregated financial statements are likely to be more useful to the majority of users than complex consolidated statements. Cost-benefit issues are core to decisions regarding development and implementation of systems. The influence of potential providers of new systems and related services (and gurus with limited public-sector appreciation) must be controlled, restricted and carefully reflected upon. The education and training of managers and politicians who could engage with the new information has got to be a priority. As I reflect on the UK experience over almost twenty years, I suspect that, if it were to be done again, the manner and extent of the application of accrual-

accounting principles into the UK central government would be very different. Hindsight is such a wonderful thing!

References

- Aberbach, J.D. and Rockman, B.A. (2006), 'The Past and Future of Political-Administrative Relations: Research from *Bureaucrats and Politicians* to *In the Web of Politics* - and Beyond', *International Journal of Public Administration*, 29, pp. 977-995
- Brusca Alijarde, M.I. (1997). 'The Usefulness of Financial Reporting in Spanish Local Governments', *Financial Accountability & Management*, 13, 1, pp. 17-34.
- Connolly, C. and N. Hyndman (2006), 'The actual implementation of accruals accounting: caveats from a case within the UK public sector', *Accounting, Auditing & Accountability Journal*, 19, 2, pp. 272-290.
- Connolly, C. and Hyndman, N. (2011), 'Accruals accounting in the public sector: a road not always taken', *Management Accounting Research*, 22, 1, pp. 26-45.
- Ezzamel, M., Hyndman, N., Johnsen, A., Lapsley, I. and Pallot, J. (2005), 'Conflict and rationality: accounting in Northern Ireland's devolved assembly', *Financial Accountability & Management*, 21, 1, pp. 33-55.
- Ezzamel, M., Hyndman, N., Johnsen, A., Lapsley, I. and Pallot, J. (2007), 'Experiencing institutionalization: The development of new budgets in the UK devolved bodies', *Accounting, Auditing & Accountability Journal*, 20, 4, pp. 11-40.
- Guthrie, J. (1998), 'Application of Accrual Accounting in the Australian Public Sector – Rhetoric or Reality', *Financial Accountability & Management*, 14, 1, pp. 1-19.
- Heald, D. and Georgiou, G. (1995), 'Resource Accounting: Valuation, Consolidation and Accounting Regulation', *Public Administration*, 73, 4, pp. 571-579.
- Lapsley, I., Mussari, R. and Paulsson, G. (2009), 'On the Adoption of Accrual Accounting in the Public Sector: A Self-Evident and Problematic Reform', *European Accounting Review*, 18, 4, pp. 719-723
- Liguori, M., Sicilia, M. and Steccolini, I. (2012), 'Some like it non-financial... Politicians' and managers' views on the importance of performance information', *Public Management Review*, 14, 7, pp. 903-22.
- Newberry, S. (2015), 'Public sector accounting: shifting concepts of accountability', *Public Money & Management*, 35, 5, pp. 371-376
- Newberry, S. and Pont-Newby, S. (2009), 'Whole of government accounting in New Zealand: the ownership form of control', *Public Money & Management*, 29, 4, pp. 235-242.
- O'Neill, O. (2006), 'Transparency and the Ethics of Communication', in C. Hood and D. Heald (eds.), *Transparency: The Key to Better Governance? Proceedings of the British Academy 135* (Oxford University Press, Oxford).
- Ter Bogt, H. J. (2004), 'Politicians in Search of Performance Information? Survey Research on Dutch Aldermen's Use of Performance Information', *Financial Accountability & Management*, 20, 3, pp. 221-252.